

INYO COUNTY ASSESSMENT PRACTICES SURVEY AND ASSESSOR'S RESPONSE

OCTOBER 1998

CALIFORNIA STATE BOARD OF EQUALIZATION

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FOREWORD

The county assessor is responsible for the assessment of all taxable property within the county, except state-assessed property. The assessor's responsibilities include such things as: (1) discovering and taking inventory of all property within the county; (2) determining a property's eligibility for a full or partial exemption from assessment; (3) determining the proper assessee who is usually but not always the owner; (4) determining the location for assessment purposes of the property; and (5) determining the taxable value of the property in accordance with California property tax law.

Determining taxable value is usually the most difficult and subjective of the assessor's duties. In addition to the inherently subjective nature of the appraisal process, the assessor also has to determine whether the taxable value is to be based on current fair market value or on a value base set earlier. When there is construction activity on a property, the assessor has to determine whether the construction is to be assessed or whether it is excluded from assessment under the law. When there is an ownership transaction, the assessor has to determine whether the law requires a reassessment of the property or whether the property must continue to be assessed according to the existing value base.

The factors discussed above, as well as others not mentioned here, contribute to making local property tax assessment a difficult tax program to administer. It is also a very important program since the property tax is one of the most important sources of revenue for local governments and public schools. For property owners it is a major annual tax burden, and, since it is normally paid in one or two large installments rather than many small increments, it tends to be more visible than most other taxes. Accordingly, proper administration of the property tax assessment program is vitally important both to the public agencies that rely on the tax and to the people who have to pay the tax.

Although the primary responsibility for local property tax assessment is a function of county government, the State Board of Equalization has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties, performed by the Board's County Property Tax Division (CPTD), is to conduct periodic surveys of local assessment practices and report the findings and recommendations that result from the survey.

The assessor was provided a draft of this report and given an opportunity to file a written response to the recommendations and other findings contained in the report. This report, the county assessor's response, and the Board's comments regarding the response constitute the final survey report which is distributed to the Governor, the Attorney General, both houses of the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Assessment practices surveys are authorized by Government code sections 15640 et seq. These code sections require each county's assessment practices to be the subject of such a survey at five-year intervals. The surveys must include research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the assessment of taxable property, compliance with state law and regulations, and other required duties. The surveys may include a sampling of assessments from the local assessment roll to determine eligibility for the cost reimbursement authorized by Revenue and Taxation Code section 75.60.

Fieldwork for this office survey report of the Inyo County Assessor's Office was completed by CPTD staff during May and June 1997. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable Richard White, Inyo County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

William B. Jackson, Chief
County Property Tax Division
Department of Property Taxes
California State Board of Equalization
October 1998

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Inyo County

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Field Sample Team

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Michael Parker

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Associate Property Appraiser

Associate Property Appraiser

Tax Technician

INYO COUNTY ASSESSMENT PRACTICES SURVEY

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I. INTRODUCTION, SUMMARY, RECOMMENDATIONS, AND SUGGESTIONS

A. INTRODUCTION

Section 15640 of the Government Code, in part, mandates that the State Board of Equalization shall:

" . . . make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her. The survey may include a sampling of assessments from the local assessment rolls sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county. . . ."

It is apparent from this language that the Legislature envisioned the Board's appraisal sampling and its office survey to be parts of a single, connected process, i.e., the evaluation of how well the county assessor is carrying out his or her sworn duty to properly assess all taxable property on the local tax roll. This evaluation was to be based both on actual field appraisals of sampled roll items and in-office interviews and research.

Section 15640 also states:

"The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process."

The way in which the sampling and survey process is carried out was developed after consultation with the county assessors by the staff of the County Property Tax Division (CPTD).

This report is the culmination of a review of the Inyo County Assessor's operation that began with CPTD staff's appraisals of properties selected on the basis of assessment category and assessed value. The survey team analyzes the results of the assessment sampling, then examines current practices and procedures in key areas to see whether the most significant problems identified in the assessment sampling still exist in the assessor's operation. Finally, the survey team offers positive courses of action, presented here as recommendations and suggestions, to help the assessor resolve problems identified in his or her program.

1. Overview of the Inyo County Assessment Roll

CPTD's field appraisal team completed appraisals of 214 properties of all types assessed on the 1993-94 Inyo County assessment roll. This roll contained a total of 14,616 assessments having a total enrolled value of \$2,253,064,868. (For a detailed explanation of CPTD's assessment sampling program, see the Appendix at the end of this report). Sampling data indicated the roll was composed by property type as follows:

<i>Property Type</i>	<i>No. of Assessments In County</i>	<i>Enrolled Value</i>
Residential	8,667	\$ 427,041,137
Rural	937	26,387,410
Commercial Industrial	2,567	258,019,043
Miscellaneous	2,445	1,541,617,278
<i>Totals</i>	14,616	\$2,253,064,868

Regardless of the size of the county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to local government agencies in Inyo County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the Board to make periodic reviews of the assessor's operation.

This survey was conducted according to the method mandated by Section 15642 of the Government Code. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate.

B. SUMMARY

Revenue and Taxation Code section 75.60 requires the Board of Equalization to certify that a county is eligible to recover the administrative costs of processing supplemental assessments. In order to be eligible, a county assessor must achieve an average assessment level that is at least 95 percent of the assessment level required by statute, as determined by the Board's CPTD in its assessment survey.

Based upon CPTD's sampling of its 1993 roll, Inyo County is eligible for reimbursement of the costs associated with administering supplemental assessments. The county's preliminary expansion ratio indicated an average assessment level of 98.8 percent. The sum of the absolute values of the differences was calculated at 5.6 percent. This indicates that the assessor's program complies substantially with property tax statutes.

While the following pages of this report identify, discuss, and recommend or suggest solutions to problems found in various Inyo County assessment procedures, at the same time we want to highlight and commend the assessor for the positive aspects of his program.

The Inyo County Assessor is fortunate in that while much of California was in a general economic recession in the early 1990's resulting in declining property values, real estate values have remained relatively stable in Inyo County. The tremendous increases in workload due to decline in value and assessment appeals experienced by most California assessor's offices have not occurred here.

This stability, combined with Inyo County's small size, is undoubtedly one reason the assessor has been able to devote so much attention to standards and quality control. For example, another staff member, the assistant assessor, the assessor, or all three, depending on the nature of the work, review all appraisal work. The office supervisor reviews all data entry. Ninety-five percent of all transfers are field reviewed and all findings properly documented.

High quality appraisals and notable documentation is evidenced by the assessor's new construction assessment program. In addition, a well-designed new construction questionnaire, with an estimated 95 percent return rate, solicits data in clear, unambiguous language.

Problems in the classification and coordination of leasehold/tenant improvement assessments are found in many assessor's offices, and we commend the assessor for an effective and efficient assessment program for these types of improvements.

After CPTD's sampling results of the 1993-94 roll indicated that window period adjustments were not being made, the assessor promptly revised his appraisal procedures. We also commend the assessor for reinstating the boat appraisal program.

Our primary area of concern and the major weakness in the assessor's program is the serious backlog of mandatory audits. There were 27 accounts subject to mandatory audit for 1996-97. Of these, only two were completed in the 1996-97 assessment year. No mandatory audits were completed in the prior four assessment years. In addition, the assessor's staff does not obtain waivers of the statute of limitations.

Other recommendations in this report advise the assessor to adjust nominal selling prices for bonded indebtedness, properly classify water wells, and include construction period interest as a component of the construction cost when valuing new construction projects.

Possessory interests are discussed in detail and we urge the assessor to, among other things, determine the relevance of discount rates established in the 1970's and used today for possessory interest income capitalization. Also, the assessor should obtain current market rent information for grazing rights. Furthermore, we recommend staff refrain from deducting section 11 values from fee values when appraising taxable possessory interests in City of Los Angeles Department of Water and Power lands.

Manufactured home assessment procedures should be revised to classify manufactured homes as personal property, emphasize the use of recognized value guides, and review all manufactured homes for declines in value.

CPTD's survey team discovered a significant underassessment caused by an error made by an outside mineral appraisal consultant. This prompts us to recommend that all appraisal backup material be maintained in county records and that these appraisals be reviewed for accuracy.

We also note that fixed machinery and equipment are not always properly classified as fixtures. We recommend allocating a fixed percentage of machinery and equipment to fixtures and that all fixtures be valued at the lower of current market value or factored base year value.

Other business and personal property recommendations focus on the necessity of including sales tax as a component of value for boats, and the statutory requirement of notifying taxpayers of an overassessment and their right to file a claim with the county for cancellation or refund.

C. RECOMMENDATIONS AND SUGGESTIONS

This report contains both recommendations and suggestions for improvements to the operation of the Inyo County Assessor's Office.

Government Code section 15645 requires the assessor to respond in writing to the formal recommendations contained in this report.¹ Our recommendations are reserved for situations where one or more of the following conditions exist:

- Violations of state constitutional provisions, statutes, BOE regulations, or case law are present;
- Existing assessment practices result in property escaping assessment or generation of an incorrect amount of property tax revenue;
- Existing appraisal practices do not conform to BOE-adopted appraisal methodologies.

Our suggestions are considered less formal than recommendations, and the assessor is not required to make any response to suggestions. Typically, suggestions are BOE

¹ Government code section 15645 provides, in relevant part: "Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of the response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate."

staff opinions on ways the assessor can improve efficiency, product quality, or other matters that do not call for formal recommendations.

Here is a summary of the formal recommendations and suggestions contained in this report, arrayed in the order that they appear in the text. The page is noted where each recommendation and its supporting text may be found.

RECOMMENDATIONS

- RECOMMENDATION 1: Request the board of supervisors revise the disaster relief ordinance to comply with current statutory timelines. (Page 13)
- RECOMMENDATION 2: Add to the nominal selling price of real property the cash equivalent amount of improvement bonds issued under the 1911, 1913, or 1915 Bond Acts. (Page 18)
- RECOMMENDATION 3: Include construction period interest as a component of the construction cost when using the cost approach. (Page 20)
- RECOMMENDATION 4: Follow regulatory guidelines when classifying water wells. (Page 21)
- RECOMMENDATION 5: Revise the possessory interest program by: (1) assessing the possessory interests of major users of fairground facilities; and (2) selecting an appropriate discount rate for possessory interest income capitalization. (Page 24)
- RECOMMENDATION 6: Discontinue the practice of deducting article XIII section 11 values from fee values when appraising taxable possessory interests located on LADWP lands. (Page 25)
- RECOMMENDATION 7: Revise manufactured home assessment procedures by: (1) classifying manufactured homes on the assessment roll as personal property; (2) placing greater emphasis on the use of recognized value guides and noting these values on appraisal records; and (3) annually reviewing all manufactured homes for declines in value. (Page 26)
- RECOMMENDATION 8: Enroll the lower of factored base year value and current market value for water company properties. (Page 28)
- RECOMMENDATION 9: Ensure mineral appraisals performed by a contract mineral appraisal consultant are reviewed for accuracy and have adequate documentation. (Page 29)

- RECOMMENDATION 10: When valuing unpatented mining claims using BLM rental payments, enroll the lower of factored base year value or current market value. (Page 30)
- RECOMMENDATION 11: Revise the mandatory audit program by: (1) completing the mandatory audits required by Revenue and Taxation Code section 469; and (2) obtaining written waivers of the statute of limitations whenever a mandatory audit cannot be completed timely. (Page 31)
- RECOMMENDATION 12: Follow statutory requirements when handling overassessments discovered by an audit. (Page 33)
- RECOMMENDATION 13: Revise the business property assessment program by: (1) classifying fixed machinery and equipment as fixtures; and (2) valuing all fixtures at the lower of current market value or factored base year value. (Page 35)
- RECOMMENDATION 14: Revise boat appraisal procedures by: (1) including sales tax as a component of value when determining market value; and (2) applying late-filing penalties only when using Board-prescribed forms. (Page 37)

SUGGESTIONS

- SUGGESTION 1: Obtain current market rent information for grazing rights on government-owned land. (Page 24)

II. ADMINISTRATION

A. BUDGET AND WORKLOAD COMPARISONS

The following illustrations utilize the State Board of Equalization's A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices, 1995-96, dated May 1997. This report is a compilation and analysis of data by the Board's Policy, Planning, and Standards Division originating from an annual questionnaire sent to all assessors. The data was voluntarily submitted by the assessors and has not been audited by Board staff.

The purpose of our illustrations is to see how the Inyo County Assessor's Office compares with other counties that are similar in one or more important ways. We caution the reader that the budget and staffing of the Inyo County Assessor's Office, or that of its comparables, are not assumed to be adequate or proper. These comparisons are merely meant to illustrate how counties compare in total local roll units, net budget, total staff, units worked per appraiser, etc. No two counties are exactly alike and a variety of factors can greatly affect individual budget and workload comparisons.

Total Local Roll Units and Net Roll Value

The primary criteria used in choosing comparables for the Inyo County Assessor's Office is Total Local Roll Units. Roll size could be indicative of a minimally acceptable staff and budget level. In other words, counties close in number of roll units would presumably need similarly sized staff and budget. Of course property type mix, ratio of rural to urban uses, and county size are also important influences, but in general, Total Local Roll Units is considered a valid starting point.

Table 1. Comparison of Inyo County with similar counties, based on Total Local Roll Units (unaudited data).

County	Total Roll Units	Total Secured Roll Units	Total Unsecured Roll Units	Total Net Roll Value (000's)
Sierra	5,470	3,923	1,547	\$351,614
Mariposa	14,161	12,501	1,660	\$1,102,961
Mono	16,356	14,838	1,518	\$1,888,682
INYO	19,378	17,494	1,884	\$2,427,881
Lassen	25,142	23,671	1,471	\$1,259,646
Plumas	25,564	22,139	3,425	\$1,940,443
Modoc	28,364	27,333	1,031	\$589,182
Tuolumne	41,380	37,453	3,927	\$3,318,693
Mean	21,977	19,919	2,058	\$1,609,888

Assessor's Budget and Assessment Roll

The following comparisons are based on the assessors' net budgets. Table 2 shows Net Budget, Budget Per Roll Unit, and Roll Value per Budget Dollar.

Table 2. Net budget comparisons of Inyo County with similar counties (unaudited data).

County	Net Budget	Budget Per Roll Unit	Roll Value Per Budget Dollar
Sierra	\$292,234	\$53.42	\$1200
Mariposa	\$473,584	\$33.44	\$2330
Mono	\$426,143	\$26.05	\$4430
INYO	\$716,473	\$36.97	\$3390
Lassen	\$369,833	\$14.70	\$3410
Plumas	\$434,821	\$17.00	\$4460
Modoc	\$300,220	\$10.58	\$1960
Tuolumne	\$687,258	\$16.60	\$4830
<i>Mean</i>	<i>\$462,571</i>	<i>\$26.10</i>	<i>\$3250</i>

Staffing

Table 3 shows staffing levels by the following units: Assessor & Other Managers, Real Property Appraisers, Business Property Auditor-Appraisers, and Total Staff.

Table 3. Staffing levels of Inyo County compared to similar counties (unaudited data).

County	Assessor & Other Managers	Real Property Appraisers	Auditor-Appraisers	Total Staff
Sierra	1.0	1.8	0.0	5.7
Mariposa	2.0	3.0	1.0	13.0
Mono	1.0	2.0	1.0	12.0
INYO	2.0	2.0	1.0	10.6
Lassen	2.0	3.0	0.0	7.5
Plumas	1.0	2.0	1.0	8.0
Modoc	2.0	2.0	1.0	8.0
Tuolumne	3.0	4.0	1.0	12.0
<i>Mean</i>	<i>1.8</i>	<i>2.5</i>	<i>0.8</i>	<i>9.6</i>

Table 4 shows workloads for appraisers, auditor-appraisers, and total staff, calculated by dividing the appropriate secured and unsecured roll units or total roll value by the staffing level.

Table 4. Workloads by staffing unit of Inyo County compared to similar counties (unaudited data).

County	Secured Roll Units Per Appraiser	Unsecured Roll Units Per Auditor-Appraiser	Total Roll Value Per Staff Member (000's)
Sierra	2,179	0	\$61,687
Mariposa	4,167	1,660	\$84,843
Mono	7,419	1,518	\$157,390
INYO	8,747	1,884	\$229,045
Lassen	7,890	0	\$167,953
Plumas	11,070	3,425	\$242,555
Modoc	13,667	1,031	\$73,648
Tuolumne	9,363	3,927	\$276,558
<i>Mean</i>	<i>8,063</i>	<i>1,681</i>	<i>\$350,656</i>

In any given year only a portion of the secured and unsecured units may involve current appraisal work. Units worked in the 1995-96 assessment year per appraiser and auditor-appraiser are shown in Table 5.

Table 5. Current year workload in Inyo County, compared to similar counties (unaudited data).

County	Number of Real Property Units Worked	Units Worked Per Appraiser	Number of Unsecured Units Worked	Units Worked Per Auditor-Appraiser
Sierra	1,560	761	788	788
Mariposa	2,475	825	1,659	1,659
Mono	3,690	615	2,112	2,112
INYO	3,410	1,516	2,641	2,641
Lassen	5,518	1,698	1,759	7,036
Plumas	1,919	960	2,842	2,842
Modoc	11,409	5,705	1,058	1,058
Tuolumne	6,229	1,557	3,364	3,364
<i>Mean</i>	<i>4,526</i>	<i>1,704</i>	<i>2,028</i>	<i>2,983</i>

B. TRAINING

Revenue and Taxation Code sections 670 and 671 contain specific educational and training requirements that must be met and maintained for a person to perform the duties of a property appraiser for property tax purposes. The Board is charged with ensuring that these requirements are fulfilled.

Section 671 of the Revenue and Taxation Code requires an appraiser to receive 24 hours of approved training each year in order to retain a valid appraiser certificate. Appraisers holding advanced certification need only 12 hours of training each year.

To qualify for an advanced appraiser certificate, one must have a minimum of six BOE courses with at least two advanced courses. Outside courses that can be substituted for a BOE advanced course include an Appraisal Institute course lasting longer than three days, or a college appraisal course.

The Inyo County Assessor and four of his staff retain a certificate to appraise for property tax purposes. The assistant assessor, two real property appraisers, and one auditor-appraiser are the four certified staff members. All four appraisers are current in their continuing education requirements.

We commend the assessor for recognizing the importance of continuing education and ensuring that his appraisal staff meets certification requirements.

C. STANDARDS AND QUALITY CONTROL

A standards and quality control section ensures the consistency and quality of the appraisal product or taxpayer services through the development and maintenance of appraisal and operating standards. Quality of appraisal output and adherence to standards is maintained through internal audits. Other duties of a standards and quality control section may include training, legal interpretations, or data processing coordination.

We found in our review of the assessor's valuation program an excellent system of documentation, review, and verification of values. Although there are no written procedures for appraisers and staff, the assessor's staff are well-trained and perform their duties skillfully. Another staff member, the assistant assessor, the assessor, or all three, depending on the nature of the work review all completed work.

The assessment clerk reviews all data entry. In a review of randomly selected assessments, from valuation to enrollment, we found no errors in data entry or other assessment support functions.

The assistant assessor reviews all real property appraisals. When the appraiser has finished the given task, the appraisal file is routed to the assistant assessor. The appraisal is checked for procedural correctness and overall conformity to office and statutory requirements.

Any problems or questions that arise are immediately discussed with the appraiser. When the review is complete, the assistant assessor initials the appraisal and forwards it to the assessor for a cursory review. Following his review, the appraisal file is sent to data entry where the values are entered into the computer system.

Another assessment support staff member then verifies the value entered. Other quality control checks include reviews of deeds and permits to ensure correct data entry and legal description.

Both the assistant assessor and the assessor perform some appraisal duties. The assistant assessor concentrates primarily on assessment appeals but also completes a portion of the possessory interest and section 11 land valuations as well as some decline in value appraisals. The assessor appraises all the small mining claims in the county. In addition, the assessor reviews all values from business property statement processing as well as all audits performed by the auditor-appraiser.

Overall we found that the assessor does an excellent job of maintaining appraisal quality and the adherence to standards.

D. ASSESSMENT APPEALS

The assessment appeals function is established by article XIII, section 16, of the California Constitution. Revenue and Taxation Code sections 1601 through 1641.1 are the statutory references to guide county boards of supervisors in the appeals function. Government Code section 15606(c) directs the Board of Equalization to prescribe rules and regulations to govern local boards of equalization, and the Board has adopted sections 301 through 326 of Title 18, Public Revenue, California Code of Regulations (Property Tax Rules 301 through 326), regarding assessment appeals.

In Inyo County, the five-member board of supervisors serves as the county board of equalization and hears all assessment appeals. Typically, hearings take place once every six months. During the 1995-96 assessment year, the board of supervisors held two hearings to equalize the 62 appeals filed in the county.

The clerk of the board of supervisors handles all clerical duties associated with assessment appeals. Appeal applications are available from the clerk's office and, once they are completed by the taxpayer, they are returned to the clerk and forwarded to the assessor's office for scheduling. When a date for the hearing is set, the applications are returned to the clerk, who notifies the taxpayers of their hearing date.

Formal assessment appeals procedures for the board of supervisors do not exist, but board members are given copies of Property Tax Rules 301 et seq., which specifically address assessment appeals. The assessor and the county counsel have developed for the board of supervisors a short training workshop that basically explains the laws and appropriate procedures that should be followed when hearing an appeal.

When an application is received by the assessor's office, the appraisal record is thoroughly reviewed. The assistant assessor prepares the case and schedules a tentative hearing date. The appeals board clerk and the assistant assessor were not aware of any cases that have defaulted due to the two-year statutory limit.

Although we were not able to attend an appeals board hearing during our field work, we reviewed a number of assessment appeals from the 1995-1996 hearings, and based on our review, it appears that the assessor's appeal program is in good working order.

E. DISASTER RELIEF

Section 170 of the Revenue and Taxation Code provides that the county board of supervisors may adopt an ordinance authorizing tax relief for the owner of taxable property whose property suffers damage of \$5,000 or more without his or her fault in a misfortune or calamity. The section prescribes procedures for calculating value reductions, applying for relief, enrolling the value of the repaired or restored property, and so forth.

RECOMMENDATION 1: Request the board of supervisors revise the disaster relief ordinance to comply with current statutory timelines.

The Inyo County disaster relief ordinance adopted by the board of supervisors (sections 3.28.010 through 3.28.060) essentially conforms to the requirements of section 170 of the Revenue and Taxation Code except for one minor point. Section 170 was revised in 1996 to account for the lien date change to January 1, effective in 1997. The Inyo County ordinance has not been updated to reflect this lien date change. We recommend the assessor request that the board of supervisors revise the ordinance to comply with the current statutory timelines as stated in section 170.

Very few claims for disaster relief are filed with the Inyo County Assessor's Office; however, those claims that are filed appear to be properly processed. The assessor's staff discovers misfortune and calamity information, such as structure fires or flooding, through local newspapers, word of mouth, or field observation. In all such instances, the assessor initiates the process for granting relief under section 170 by mailing the property owner the application for relief. After completing the application, the property owner returns the form to the assessor's office.

We found that the staff appraisers are following all necessary procedures in accordance with section 170 provisions. In addition, on subsequent lien dates the staff inspects these damaged properties to keep track of restoration affecting the taxable value of the property. We commend the assessor for his attention and good work in this area.

F. ASSESSMENT ROLL CORRECTIONS

Pursuant to section 4831 of the Revenue and Taxation Code, roll corrections can be made when an error or escaped assessment is discovered after the roll is closed. The correction may be made any time after the roll is delivered to the auditor, but with a few exceptions, shall be made within four years of the making of the assessment that is being corrected.

The Inyo County Assessor's Office processed 157 roll corrections for the 1995-1996 tax year. The assistant assessor, who then assigns the work to an appraiser to complete, analyzes a potential roll correction. The completed work is reviewed by the assistant assessor, who codes the correction with a two-digit computer code. This code references the appropriate Revenue and Taxation Code section citation and ensures the appropriate description is printed on the notice to the taxpayer.

The assessment clerk processes the roll correction by:

- Entering the information in the computer system which initiates the roll change process and generates the appropriate documents
- Mailing the appropriate form letters to the taxpayer after a ten day hold period
- Printing a copy of the roll change for the appraisal file
- Sending a copy of the roll change to the auditor's office for further processing.

The assessor's staff prints out a list of all roll changes once a year. The list identifies each roll change by assessee, roll change number, date of change, roll year affected, allocation between land, improvements, fixtures, personal property, exemption if any, net value, tax-rate area, and parcel number. Also included on the printout are all appropriate references to Revenue and Taxation Code sections.

This printout is the only place where the requirement of section 533 is exhibited. Section 533 states in part that "if this is not the roll for the assessment year in which the property escaped assessment, the entry shall be followed with 'Escaped assessment for year 19__ pursuant to Sections ____ of the Revenue and Taxation Code.'" The cumulative roll change printout is placed in the current year roll book. The roll book is accessible to the public.

III. REAL PROPERTY VALUATION AND ASSESSMENT

A. INTRODUCTION

Under our present property tax system, the county assessor's programs for assessing real property include the following elements:

- (1) Revaluation of properties that have changed ownership
- (2) Valuation of new construction
- (3) Annual revaluation of certain properties subject to special assessment procedures such as taxable government-owned land, and
- (4) Annual review of properties having declining values ("Proposition 8" assessments authorized by section 2(b) of article XIII A).

The statistics derived from CPTD's assessment survey of the 1993-94 Inyo County local assessment roll indicates the overall quality of the roll for that year. CPTD's sampling of 214 roll entries included 183 assessments of real property other than trade fixtures. Of these, 59 properties were appraised by CPTD staff at values different from the values determined by the assessor's appraisal staff (36 were underassessed and 23 were overassessed).

1. Change in Ownership

a. Overview

Our sampling of the 1993-94 assessment roll in Inyo County included 53 properties that had experienced a change in ownership. The CPTD appraisal staff and the assessor's staff were in agreement as to value in 38 of the 53 sample items. Of the 15 sample items in which the values between CPTD and the county assessor's staff differed, 10 had assessed values lower than the CPTD appraised values, and in the other 5 sample items the county's assessed values were higher than CPTD's.

Of the 10 properties that were valued lower than the CPTD value, four differed because of base year trending, four because of appraiser judgment, one due to allocation techniques and two, both section 11 properties, differed because of procedural differences. It should be noted that some of these appraisals had multiple reasons for differences, i.e. trending and appraiser judgment.

Of the five sample items that the county valued higher than the CPTD, four differences were due to declines in value not recognized by the county, and one was due to allocation methods.

Change in ownership document processing is the responsibility of the clerical staff. Twice weekly, copies of recorded documents involving change in ownership are forwarded from the recorder's office to the assessor's staff. An assessment clerk reviews all copies and

determines which ones are assessable as changes in ownership. The clerk also analyzes the legal descriptions in order to verify or ascertain the assessor's parcel numbers.

In most instances transfer documents are accompanied by a Preliminary Change of Ownership Report (PCOR). When a taxpayer has failed to return the PCOR, the assessor's staff sends a Change in Ownership Statement (COS) to the transferee. The assessor reports a 99 percent return rate when a COS is sent. Both of these questionnaires conform to statutory requirements as described in section 480 of the Revenue and Taxation Code.

After a change in ownership has been determined, the assessment clerk will note on the "top sheet" (the front sheet for each appraisal record which displays all the actions that have been performed on that parcel) the document number and what type of transfer has taken place. The following data is then entered into the computer system:

- (1) Document number
- (2) Recorded date
- (3) Documentary transfer tax value (if any)
- (4) Effective year (the new base year)
- (5) Appraisal code (type of transfer)
- (6) Grantor/grantee and any Revenue and Taxation Code section that applies.

Two hard copies are made. One is sent to the appraisal file and the other is forwarded to the assistant assessor for review. Once his review is complete, the assistant assessor distributes the "top sheet" and transfer information to the assigned appraiser.

More than 95 percent of all transfers are field reviewed and inspected by an appraiser. Our review of appraisal files indicated notable attention to documentation. When the appraisal task is completed, the file is returned to the assistant assessor and/or the assessor for a final review. We commend the assessor and his staff for their well-documented appraisal records and extensive review process.

b. Legal Entity Ownership Program (LEOP)

Since 1983, the Board's Legal Entity Ownership Program (LEOP) has informed county assessors of changes in control or ownership of legal entities owning real property in California. The LEOP unit is part of the Board's Policy, Planning, and Standards Division of the Property Tax Department. Typically these types of changes in ownership are not recorded at the local county recorder's office and may go undiscovered by the county assessor's office. Responses to questions appearing on Franchise Tax Board (FTB) corporate and partnership tax returns filed by legal entities are the primary means of discovering such changes in control or ownership.

The LEOP unit gathers preliminary information from the FTB and sends the acquiring and acquired entities a questionnaire requesting the date of transfer, manner of change in control, and disclosure of all parcels involved, listed by county. Responses are accumulated,

sorted by county, and forwarded to the appropriate assessor's offices. LEOP notifications provide assessors with important information on unrecorded transfers of real property that may otherwise be overlooked. Because some of the acquiring entities cannot furnish specific information, the assessors are advised to thoroughly review each listed parcel to determine, with certainty, which are subject to reappraisal.

We randomly reviewed the appraisal records of several properties listed on the LEOP notices that had been sent to the Inyo County Assessor's Office. All notices are reviewed by the assistant assessor and then distributed to the staff appraisers for reappraisal if necessary. We also cross-checked the LEOP list with the business property statements (BPS) to determine if these businesses had properly notified the assessor's office of the change in control as requested on the BPS.

We found that, in most cases, these businesses indicated a change in control on their BPS, and this information had been referred by the auditor-appraiser to the real property appraisers for appropriate action. We also found that every appraisal record we reviewed relative to LEOP notification contained proper documentation indicating review or appraisal action taken. We believe that the Inyo County Assessor's staff is processing LEOP notices effectively and efficiently.

c. Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements that generally enhance the land value of privately owned real property. Some examples of this type of construction are sewers, sidewalks, lighting, and water lines. Land directly benefiting from construction of such improvements is pledged as security for payment of the construction loan. The improvement bond is a lien against the land and an obligation that is assumed by the owner or his successors in interest.

Section 4, of Title 18, of the California Code of Regulations (Property Tax Rule 4), provides that when appraising an unencumbered fee interest, the appraiser shall convert the sale price of a property encumbered by a debt by adding to the sale price the present value of the debt. Bonds issued under the 1911, 1913, and the 1915 Bond Acts are debts, not taxes, and the appraiser should adjust the sale price for the present value of these unpaid debts.

Section 163 of the Revenue and Taxation Code requires any entity that receives revenue from an assessment lien created by one of these bonds to annually notify the assessor of all of the following:

- (1) The lien amount on each subject parcel at the time the lien was created
- (2) In the case in which a lien has been completely satisfied, the date and amount of the payment in satisfaction of the lien, and the identity of the party that made that payment
- (3) The amount of the principal balance of the lien on each subject parcel.

RECOMMENDATION 2 : Add to the nominal selling price of real property the cash equivalent amount of improvement bonds issued under the 1911, 1913, or 1915 Bond Acts.

The Inyo County Assistant Assessor informed us, before our review of improvement bonds, that his staff were not adjusting sale prices for bonded indebtedness. Using parcel numbers provided from the auditor-controller's office, we reviewed the appraisals of several parcels that sold during the 1996 assessment year. In each case the selling price had been enrolled as the market value indicator without adjustments for the unpaid bond amounts.

We obtained records from the auditor-controller's office that indicated five different assessment districts where there were outstanding bond balances. The district, the affected parcel numbers, and outstanding balances were readily available. Although this information was available to CPTD personnel, the auditor-controller's office had not yet notified the assessor of bond information.

Outstanding improvement bonds are a form of encumbrance or debt that must be included in the consideration paid for the property. We recommend that the appraisal staff identify those properties encumbered with improvement bonds, obtain bond information from the appropriate agencies, and adjust the selling prices of the encumbered properties by the present value of the bonded indebtedness.

Note that the nominal sales price adjusted by the bonded indebtedness is a value indicator; it does not necessarily represent market value. The reliability of the indicator must be resolved by the appraiser prior to being enrolled as market value.

2. New Construction

a. Sampling Results

Our sampling of the 1993-94 Inyo County local assessment roll contained 66 sample items that were classified "New Construction." Thirty-one of these new construction sample items showed minor to significant differences. Of these 31 sample items, CPTD's appraised values were higher than the county's enrolled value in 17 cases, while in 14 cases CPTD's appraised values were lower than the county's value.

Twenty of the sample items with appraisal valuation differences involved appraisal judgment or professional differences in opinion of value. In two cases where the assessor's values were higher than CPTD's appraised values, CPTD determined that the taxable value under section 51 (a) of the Revenue and Taxation Code was the current market value instead of adjusted base year value. One property was a sand and gravel operation, the other a manufactured home. The valuation of mineral properties and manufactured housing are discussed in separate sections of this report.

The value differences on the remaining sample items were due to: (1) escapes of minimal value new construction built without permits, and (2) the assessor's appraisal staff not applying the inflation factor in accordance with Revenue and Taxation Code section 75.18 to the taxable value of new construction completed between the lien date and June 30 (referred to as the window period). Starting with the 1995-96 assessment roll, the Inyo County Assessor began applying the appropriate inflationary factor to completed new construction and transfers that occur between the lien date and June 30.

b. Building Permit Processing

Three agencies in Inyo County (City of Bishop Building Department, Inyo County Building Department, and Inyo County Department of Environmental Health) issue building permits. These agencies submit copies of all permits monthly to the assessor's office. The assessor reviews all permits received and eliminates any obvious non-taxable construction, such as roof or siding replacements. The cadastral technician processes permits with taxable new construction according to written processing procedures.

Currently, about 250 to 275 building permits annually generate assessable new construction. Geographically based appraisal assignments for the new construction workload is not only an efficient means of workload allocation but promotes familiarity and appraisal consistency within a geographic area. Appraisal records reviewed were found to be of high quality, with full documentation as to how values were derived.

c. Historical Costs

A new construction questionnaire is mailed to property owners at the time the appraiser determines the construction should be complete or nearing completion. The questionnaire requests information on cost, a new construction description, and other pertinent data. The form is very well designed and solicits relevant data in clear, unambiguous language. The questionnaire return rate is estimated at about 95 percent based on the records reviewed.

Historical cost data is analyzed and entered manually on summary sheets by location and property type, e.g. single family residence, ancillary improvements, and commercial structures. Board cost factors and Marshall Valuation Service cost data are used when the historical costs not available or are considered unreliable. Though the appraisal staff rely primarily on the cost approach to value new construction, sales of single family residences similar to newly constructed homes are also analyzed to determine locale adjustments.

Our previous survey recommended the appraisal staff estimate and apply depreciation for newly constructed additions. At that time, we recommended that when valuing the addition, the appraiser estimate the remaining economic life of the total structure and apply the corresponding percent good factor to the cost of the new addition. The assessor's response to this recommendation, also included in the survey, noted that this policy was indeed office policy and his appraisal staff were making appropriate adjustments for all forms of depreciation to determine the effective age of the resulting appraisal unit.

In our current review of the county's appraisal records, we found cases where the new construction had been depreciated and other instances when it was not depreciated. The assessor's stated policy is that the new construction be appraised at a value that represents the contribution of that new construction to the current market value of the total property. Based on this review, it appears that the appraisers are properly valuing most taxable new construction.

The sales comparison approach is the preferred method for valuing new construction. But, with a limited number of sales, and no means with which to identify those possessing additions or conversions, often the most reliable indicator of value is the cost approach.

A data bank of sales that include additions or conversions, such as a room addition or an attached garage converted to living space, would assist in determining the market value contribution of an addition or conversion to a total property.

d. Interest on Construction Funds

Interest on construction financing is a component of value when using the cost approach to value. Interest is includable whether funds are borrowed or owner supplied. When funds are borrowed, interest is readily identifiable. When funds are owner supplied, interest must be imputed and included in the cost approach summation.

RECOMMENDATION 3 : Include construction period interest as a component of the construction cost when using the cost approach.

One of the CPTD samples was a large company with new construction at its industrial site financed by company funds. Interest on these self-provided new construction funds was not included in the county's cost approach, resulting in a large underassessment. This underassessment was not enrolled as an escape assessment as a result of CPTD's appraisal, nor was construction interest added in subsequent years when new construction was reported to the assessor on the business property statement. Furthermore, there was no documentation in the appraisal file indicating these interest costs were even considered in the appraisal.

The cost of interest on money borrowed or committed during construction must be considered as a component of the cost approach to value. We recommend that the assessor establish a policy to ensure that interest costs are properly accounted for whenever the staff uses the cost approach.

e. Leasehold/Tenant Improvements

Leasehold/tenant improvements are improvements located on land owned by someone other than the owner of the improvements. Examples are storefronts, interior finish, partitions, fixtures, etc. Ownership determines whether these improvements should be assessed on the secured or unsecured roll. If these improvements are owned by the tenant, they cannot be

secured to the land assessment for property tax purposes; but, they must be valued and treated in the same manner as other improvements.

The appraisal staff utilizes the replacement cost approach and historical costs when they are available and considered representative of market value. In the Inyo County Assessor's Office, all leasehold/tenant improvements are inspected and classified by a real property appraiser. The business property division is then notified as to what items were not included in the real property assessment, and should therefore be assessed by the business division. This arrangement has eliminated the coordination problems between the real and business property divisions found in many counties, and it reduces the chances of misclassification and improper valuation of tenant improvements.

We found no apparent problems in the assessor's leasehold/tenant improvement valuation procedures, and we commend the assessor and his staff for their efficient and effective administration of these assessments.

3. Rural Property

Inyo County has little fee owned agricultural land, and none under the California Land Conservation Act of 1965 (Williamson Act). We found the rural property appraisal records to be adequately documented, and transfers and new construction properly processed. However, we did find a problem with the classification of water wells.

RECOMMENDATION 4 : Follow regulatory guidelines when classifying water wells.

The Inyo County Assessor's policy is to classify irrigation and domestic wells as improvements. Property Tax Rules 121 through 124 contain the criteria for classification of land, improvements, fixtures, and personal property. These rules provide some examples of items appropriately classified as land or improvements. For example, wells (hole, casing, gravel pack) are classified as land and pumps (fixed), motors, underground distribution systems, and concrete lined ditches are classified as improvements (which includes fixtures). Based on these criteria, the assessor should classify wells as land.

We recommend the assessor direct his staff to properly classify wells in accordance with Property Tax Rule 124.

4. Declines in Value

Section 51 of the Revenue and Taxation Code requires the assessor to assess real property each year at the lower of its current market value or its factored base year value. The economic decline of the early 1990's, and the resulting decline in real property values in several California regions, resulted in many assessor's offices being inundated with taxpayer requests for assessment reductions. However, due to the relatively stable real estate market in Inyo County, declines in value have not been a major problem.

Inyo County consists of 16,375 parcels, not including the 1,124 parcels owned by the Los Angeles Department of Water and Power. The county's small size is one reason that the assessor is able to keep abreast of changes in property values by monitoring sales and current construction costs.

For the 1996-97 roll year, 1,131 parcels were identified as having a current market value lower than the factored base year value. When a property's assessed value is reduced, the property is encoded in the database so that the annual inflation factor adjustment will not be made. This encoding also flags the property for annual appraisal review.

5. Supplemental Assessments

We reviewed the procedures of the Inyo County Assessor's Office for compliance with the provisions of sections 75 through 75.80 of the Revenue and Taxation Code pertaining to supplemental assessments for changes in ownership and the completion of new construction. The staff appears to be properly and promptly calculating and enrolling supplemental assessments. Although processing time varies, most supplementals are processed within three months of the event date. At the time of our survey, there was no backlog in supplemental processing or enrollment.

All supplemental assessments are processed and enrolled regardless of value. Tax bills under seven dollars are canceled by the auditor-controller's office as provided for in section 75.41 (d) of the Revenue and Taxation Code.

At present, the Inyo County Assessor maintains a computerized event log listing all supplemental assessments that have been processed for the current fiscal year. This computer log adequately complies with section 75.40, which describes the information required for the county auditor, the tax collector, and the public.

B. SPECIAL PROPERTY TYPES AND PROCEDURES

1. Taxable Government-Owned Property

The provisions of article XIII section 11, of the California Constitution specify that property owned by government agencies but located outside their boundaries are taxable if they were taxable at the time of acquisition. Such property is frequently referred to as section 11 property.

The Los Angeles Department of Water and Power (LADWP) owns 1,124 parcels of land in Inyo County subject to the provisions of article XIII section 11. The 1996-97 section 11 assessed value on LADWP land in Inyo County was about \$705 million, as compared to \$398.5 million in assessed value for all privately owned land in Inyo County.

The 1995 California Supreme Court decision in *City and County of San Francisco v. County of San Mateo et al* (1995), 10 Cal. 4th 554 requires counties, except Inyo and Mono, to

enroll the lowest of the following three values for taxable government-owned property: the current fair market value, the factored base year value, or the 1966 assessed value times the appropriate Phillips (section 11) factor.

The Court chose not to express any views on the special provisions of section 11 lands located in Mono or Inyo Counties (see Letter to Assessors No. 95/48). Therefore, in Inyo County, the assessment of taxable government-owned land is the 1966 assessed value times the appropriate Phillips (section 11) factor, without the comparison of the factored base year value or market value.

Improvements that were taxable when acquired by the government agency, or their replacement improvements, are assessable at the lowest of their current market value, their full cash value as defined by article XIII A, or the highest value ever used for taxation for the replaced improvements. New construction, except for improvements that replace previously taxable improvements, is exempt.

We compared property tax-rate area codes against the tax-rate area index to verify whether listed government-owned properties were within specified boundaries. Based on this review, we found no evidence of escaped section 11 assessments.

Section 11 calculations are computer programmed using the appropriate Phillips factor supplied by the Board of Equalization. Our review found enrolled section 11 values to be properly valued and assessed.

2. Possessory Interests

A taxable possessory interest is established when a right to exclusive use and possession is created in government-owned real property. The elements necessary for a taxable possessory interest assessment program are the ability to identify government agencies granting possessory interests, the holder of the possessory interest, terms of possession, and economic rents. The assessor, under section 107 of the Revenue and Taxation Code, is responsible for identifying the existence of taxable possessory interests and valuing those interests upon their creation, change in ownership, renewal, or renegotiation of the lease, and upon the construction of new improvements subject to the lease agreement.

In the Inyo County Assessor's Office, the assessment program for possessory interests is the responsibility of the assistant assessor and a real property appraiser whose duties include the discovery, valuation, and annual review of about 1,250 possessory interest accounts on the unsecured roll.

In our last assessment practices survey, we found several taxable possessory interests in land owned by the LADWP that were not being assessed. The assessor has since made a concerted effort to identify all taxable possessory interests, including those on LADWP land. The assistant assessor annually requests and receives a current list of lessees from LADWP, United States Forest Service (USFS), Bureau of Land Management (BLM), and airports within the county.

The USFS, by virtue of a recent United States Federal Court Decision, discontinued issuing information to the assessor on single family and recreational dwellings located on forest service land. This is unfortunate because information received from the various government agencies has greatly assisted the discovery of taxable possessory interests.

RECOMMENDATION 5 : Revise the possessory interest program by: (1) assessing the possessory interests of major users of fairground facilities; and (2) selecting an appropriate discount rate for possessory interest income capitalization.

Assess the Possessory Interests of Major Users of Fairground Facilities

Fairground facilities in Inyo County are on land owned by LADWP. Users of the fairgrounds may hold taxable possessory interests under Revenue and Taxation Code section 107. Currently, the assessor does not value any possessory interests at the fairground.

The assessor's staff should compile an inventory of concessionaires and exhibitors who use the fairground facility during the annual fair or at other times. He should then assess the rights of those whose use meets the conditions of a taxable possessory interest.

Select an Appropriate Discount Rate for Possessory Interest Income Capitalization

Sitting as a county board of equalization, the Inyo County Board of Supervisors, in the mid 1970's, determined discount rates to be used for possessory interests of seasonal use properties in the Eastern Sierra mountains. There are two discount rates used depending on geographic area. One is 25 percent for risk and seasonal use and the other 15 percent for risk and seasonal use.

We found no documentation to support these rates. Furthermore, the assessor is still applying these discount rates without supporting data to substantiate their current relevance. While these rates may have been appropriate discount rates for these possessory interests 20 years ago, current rates need to be based on current market influences consistent with this type of seasonal use property.

We recommend that the assessor research local market data to develop appropriate discount rates to be used on seasonal possessory interest properties.

SUGGESTION 1: Obtain current market rent information for grazing rights on government-owned land.

The BLM and the USFS control significant portions of Inyo County. Our current review indicates there has been no change in the valuation procedures for grazing rights on these government-owned lands since our last survey. The valuation method used for grazing rights is correct. However, we believe that the income used in the valuation method is low and not indicative of current market rents. The county is using the actual contract rent that was established in the late 1980's.

Because there haven't been sales of grazing permits or new rents of comparable privately owned lands in Inyo County for many years, we suggest that the appraisal staff compile rental data from the BLM, the USFS, other California counties, and counties in other states to establish current market rental information for grazing rights.

RECOMMENDATION 6: Discontinue the practice of deducting article XIII section 11 values from fee values when appraising taxable possessory interests located on LADWP lands.

The assessor is using reasonable rates, terms of possession, and remaining economic lives on improvements for the appraisal of taxable possessory interests on LADWP lands. However, we noted an incorrect procedure in the calculation of the taxable possessory interest value. The assessor first determines the fee value of the property, then deducts an article XIII section 11 value based on the Phillips factor. The residual results in an amount the county refers to as the "nontaxable increment," from which the final possessory interest value is calculated. This procedure is an incorrect application of section 11(f) of article XIII of the California Constitution, which reads in part:

The aggregate value of all the interests subject to taxation pursuant to Section 11 (a), however, shall not exceed the value of all interests in the land less the taxable value of the interest of any local government ascertained as provided in Section 11 (a) to 11(e), inclusive, of this Article.

The maximum amount of the possessory interest assessment cannot exceed the lowest of its current market value, its factored base year value, or the amount of the difference between the current market value of the land and the current section 11 value of the land.

We recommend the assessor discontinue deducting the section 11 value prior to determining the taxable possessory interest value in LADWP lands.

3. Manufactured Homes

Manufactured homes have been taxable on county assessment rolls since July 1, 1980. A manufactured home can become subject to local property taxation either because it was first sold new on or after July 1, 1980, or because the owner voluntarily converts from vehicle

license fee to local property taxation. The statutes prescribing how manufactured homes must be valued and assessed are sections 5800 through 5843 of the Revenue and Taxation Code. There are also sections of the Health and Safety and Vehicle Codes that may apply to manufactured homes.

There are approximately 2,450 assessable manufactured homes in Inyo County. Of these, approximately 1,380 are located in 95 manufactured home parks. All others are located on either privately owned land or government-owned land.

In the Inyo County Assessor's Office, each appraiser is responsible for all real property in their assigned geographic area, and manufactured homes. The appraisers receive periodic reports from the Department of Housing and Community Development (HCD) listing manufactured home sales, resales, changes of situs, and voluntary conversion from vehicle license fee to local property taxation. The appraisers use this information and dealers' reports of sale, manufactured home park owner contracts, and building permits to obtain change in ownership and new construction assessment information.

Although the manufactured home assessment program appears to be well administered, there are some areas in need of improvement.

RECOMMENDATION 7 : Revise manufactured home assessment procedures by: (1) classifying manufactured homes on the assessment roll as personal property; (2) placing greater emphasis on the use of recognized value guides and noting these values on appraisal records; and (3) annually reviewing all manufactured homes for declines in value.

Properly Classify Manufactured Homes As Personal Property

The assessor's staff is very prompt in assessing manufactured homes and their accessories. However, the assessor incorrectly enrolls manufactured homes as real property improvements rather than personal property. Existing constraints of the property tax assessment computer system do not allow the staff to input the manufactured home as personal property and additionally grant a Homeowner's exemption.

Manufactured homes should be classified and assessed as personal property. Only in those instances where manufactured housing is affixed to a permanent foundation in compliance with Section 18551 of the Health and Safety Code (see Letter to Assessors 92/57, August 31, 1992) are manufactured homes classified as real property.

When manufactured homes are improperly enrolled as real property, the owner of the manufactured home will pay taxes that should not have been levied if the manufactured home is located within a tax-rate area that has a special assessment. Special assessments are levies upon real property for improvements or services and are based upon the benefits accruing to the property. Special assessments can only be applied to land or the combination of land and improvements. Since manufactured homes are to be assessed as personal property, they are not

subject to special assessments. When the manufactured homes are entered on the assessment roll as real property improvements, as in Inyo County, they are subject to all special assessments included in calculating the annual property tax. The special assessments are also applied to manufactured homes where the owner of the manufactured home owns the underlying land.

Even though they are to be classified as personal property, manufactured homes are to be annually valued at the lesser of the current market value or the base year value adjusted by an inflation factor (Revenue and Taxation Code section 5813). Since personal property other than manufactured homes is not subject to a base year value, this can create a tracking problem for the assessor's office. This is especially true if the manufactured home assessment is combined with other taxable personal property such as farm equipment or boats. All manufactured home accounts should be tagged, either through a special parcel number or use code, and identified as a personal property assessment that is just a manufactured home or a combination of manufactured home and other taxable personal property.

We recommend that the assessor enroll the value of manufactured homes as personal property on the secured roll. This will ensure that special assessments are not applied to manufactured homes. Any manufactured home accessories that are real property should continue to be enrolled as improvements, and, as such, are subject to special assessments.

Place Greater Emphasis on the Use of Recognized Value Guides

Currently the assessor's staff rely on the selling prices of manufactured homes as the primary indicator of value. However, many manufactured housing units in the county are located on leased or rented sites in manufactured home parks. Such units often sell for a price that reflects a consideration for the value of the site. The prices of comparable units may differ substantially, depending on the manufactured home park in which the unit is situated.

The appraisal staff occasionally use The Kelley Blue Book Guide to Manufactured Housing and Mobilehomes to value manufactured homes. In our review of manufactured home appraisals, we found that the appraisal records lacked any documentation that the value guide was used to value a manufactured home.

In order to ensure that the site's influence on the sales price of a manufactured home is not assessed, section 5803 directs the assessor to consider a recognized value guide for manufactured homes when determining fair market value. Section 5803(b) states that the assessor shall take into consideration sales prices for manufactured homes listed in recognized value guides.

We recommend that the appraisal records be documented showing the value guide consulted, date, and value to establish that the appraiser has considered the manufactured home value found in the value guide.

Review All Manufactured Homes for Declines in Value

Our review noted the appraisal staff appropriately enrolls current market value when the manufactured home has changed ownership. In subsequent years, the consumer price index factor (CPI) is applied to the original value. However, our review indicated an inconsistent pattern of recognizing declines in value of manufactured homes in years following the sale. It appears the appraisers revalue only those manufactured homes located in manufactured home parks where they feel a decline in value is warranted. Those located on leased lots outside of parks are overlooked when considering a decline in value.

Revenue and Taxation Code section 5813 states that the taxable value of a manufactured home shall be the lesser of its base year value, compounded by the annual inflation factor, or its current market value as determined pursuant to section 110 of the Revenue and Taxation Code.

We recommend the assessor's staff conduct periodic market reviews of all manufactured homes in the county and adjust the taxable value of any manufactured home whose current market value has fallen below its factored base year value.

4. Water Companies

Water companies assessed on local tax rolls may be municipal systems on taxable government-owned land (article XIII, section 11 of the Constitution), private water companies regulated by the California Public Utilities Commission (CPUC), private water companies not regulated by the CPUC, or mutual water company associations. Each type presents different appraisal problems.

a. Municipal Water Companies

The Constitution of the State of California exempts from taxation property owned by a local government (article XIII, section 3(b)). This includes property owned by city water departments or water districts and located within city limits or district boundaries. When the water system is located outside of the government's boundaries, however, the assessment of guidelines provided in article XIII, section 11 of the California Constitution are applicable. Publicly owned water system property located outside the city limits or district boundaries is taxable if the property was taxable at the time it was acquired by the city or district.

b. Private Water Companies Regulated by the California Public Utilities Commission (CPUC)

Private water companies, both regulated, and unregulated, are privately owned utilities in business to earn a profit from the sale of water. Regulated water companies are required to submit financial reports annually to the CPUC. The CPUC regulates the rates charged by private water companies, with profits being limited to a return based on the companies' historical cost less depreciation (HCLD). Because the assessed values of these properties are tied

to HCLD, current market value may be less than a water company's factored base year value, making it necessary to annually determine its taxable value as of the lien date.

RECOMMENDATION 8 : Enroll the lower of factored base year value or current market value for water company properties.

We found in Inyo County that most utility water companies are being assessed on the basis of their factored base year values, without considering their current market value. Our prior survey of Inyo County recommended that water company valuation procedures be revised because of this practice. Since these erroneous procedures are still in place, we repeat the recommendation from our last survey.

All water properties are assessed at the lesser of their factored base year or current market value. As utility water companies are regulated by the CPUC, their earnings are restricted to a fair return on historical costs of property less accrued depreciation (rate base). This restriction tends to limit the market value of public utility water companies to an amount close to rate base. Because of this, the market value of these regulated water companies will almost always be less than the factored base year value.

As stated above, each year the water company owners are required to send the county assessor a copy of the annual report that is filed with the CPUC. We recommend the assessor direct his appraisal staff to utilize the data contained in this report. An indicator of current market value can be calculated, and this value should be compared to the factored base year value to determine the proper value to enroll.

5. Mineral Properties

Numerous types of mineral deposits are located in Inyo County. Mines in Inyo County have produced gold, silver, potash, borax, tungsten, and talc. A significant geothermal operation is also located in the county. Most of the mineral properties are appraised by the assessor's staff with the more complex properties contracted out to a mineral appraisal consultant. This procedure has proved effective in many counties that do not have the resources or need to hire full time mineral appraisers.

RECOMMENDATION 9 : Ensure mineral appraisals performed by a contract mineral appraisal consultant are reviewed for accuracy and have adequate documentation.

The appraisals performed by the outside mineral appraisal consultant were found to be lacking in the documentation required to support the recommended property value. The mineral appraisal consultant only furnishes a summary worksheet of the appraised values. Backup material, showing how values were determined, could not be found in the assessor's files.

In the course of our review, we discovered an error in the income valuation calculations for the geothermal property, an appraisal originally done by the mineral appraisal consultant. This error resulted in an underassessment of almost \$100,000,000 in assessed value (approximately 1 million tax dollars). After discovery of this error, the assessor has since reviewed the calculations and made the proper roll corrections.

To facilitate a review by the assessor and his appraisal staff, as well as others with legal access to this data, each appraisal file should contain all appraisal worksheets necessary to document the determination of the property value.

We recommend the assessor require the mineral appraisal consultant to provide copies of all worksheets used to determine the property value, and to ensure these appraisals are reviewed for accuracy.

RECOMMENDATION 10 : When valuing unpatented mining claims using BLM rental payments, enroll the lower of factored base year value or current market value.

The Inyo County Assessor factors the base year value of its unpatented mineral claims each year by the California Consumer Price Index (CCPI). This is usually the proper method for adjusting base year values on properties. However, for some unpatented mining claims, this factored base year value can exceed the current market value of the claim. Currently, the assessor is enrolling the factored base year value without comparing the value to the current market value.

When there is no production or other indication of value for an unpatented mining claim, the mineral rights value for an unpatented mining claim is determined by capitalizing the annual rental payments made to the Bureau of Land Management (BLM) to hold the claim. This rental income stream is capitalized into perpetuity. Using this method, the current market value of the property is dependent on the discount rate and will not change from one year to the next unless there is a change in that rate.

We recommend the appraisers compare the current market value of unpatented mining claims against the factored base year value and enroll the lower value.

IV. BUSINESS AND PERSONAL PROPERTY VALUATION AND ASSESSMENT

A. INTRODUCTION

The Inyo County Assessor's Office annually assesses over 1,400 business and agricultural accounts, 525 boats, and 100 aircraft. Approximately 250 business accounts are direct billed. The assessor, one auditor-appraiser, and one full time clerk manage the business property duties.

The Board's CPTD sampling of the 1993-1994 Inyo County local assessment roll included 71 secured and unsecured business, agricultural, aircraft, and boat properties. In 34 of the sampled items, the county values differed from those determined by CPTD staff. Specifically, the county's assessed values exceeded the CPTD staff's appraised values in the cases of 8 sampled items, while in 26 cases the CPTD staff's appraised values were higher.

At the time of our last Inyo County assessment practices survey, published in 1990, the auditor-appraiser position had been deleted from the assessor's budget. As a result, many duties directly related to that position were not being carried out. Mandatory audits had not been done and the boats had not been assessed for at least three years. The prior survey recommended that the position of auditor-appraiser be restored to the assessor's budget. This position was restored in 1990 and has been filled continuously since then except for a yearlong vacancy in calendar year 1994.

B. AUDIT PROGRAM

Revenue and Taxation Code section 469 requires the assessor to audit certain taxpayers at least once each four-year period. Whenever locally assessable trade fixtures and tangible business personal property owned, claimed, possessed, or controlled by a taxpayer engaged in a profession, trade, or business has a full value of \$300,000 or more for four consecutive years, the assessor must audit the books and records of such a taxpayer at least once each four years.

RECOMMENDATION 11: Revise the mandatory audit program by: (1) completing the mandatory audits required by Revenue and Taxation Code section 469; and (2) obtaining written waivers of the statute of limitations whenever a mandatory audit cannot be completed timely.

Complete the Mandatory Audits Required by Revenue and Taxation Code section 469

Our review of the Inyo County Assessor's mandatory audit program indicated that there is a serious audit backlog problem. In the 1996-97 assessment year, there were 27 accounts subject to mandatory audits in Inyo County. Of these accounts, only two mandatory audits were

completed in the 1996-1997 assessment year. No mandatory audits were completed in the prior four assessment years.

As previously stated, with the exception of a vacancy in 1994, the auditor-appraiser position has been continuously filled. Certainly there has been adequate staffing to complete and maintain the mandatory audit program as required by section 469.

Typically a mandatory audit program results in a positive tax benefit to the county. While statewide statistics are not available on what an average mandatory audit produces in revenue from escape assessments, most counties receive positive net tax revenue when the assessor maintains a current status on mandatory audits.

The assessor has a tentative audit schedule for the current auditor-appraiser to complete a majority of the mandatory audits over the next four years. This auditor-appraiser has recently completed several nonmandatory audits to gain audit experience, and is planning to attend a Board training class on auditing procedures. The wide variety of assessment and auditing duties required of an auditor-appraiser in a small county assessor's office may require additional training and development beyond the knowledge required for initial appraisal certification. However, the mandatory audit program is a significant component of the assessor's responsibilities and must be considered a high priority when committing staff and training resources.

We strongly recommend the mandatory audit program be brought up to current status as soon as possible.

Obtain Written Waivers of the Statute of Limitations Whenever a Mandatory Audit Cannot Be Completed Timely.

Revenue and Taxation Code section 532 requires that an escape assessment found by an audit must be made within four years after July 1 of the assessment year during which the property escaped assessment or was underassessed. If the assessor cannot complete the mandatory audit within the prescribed time limit, he or she may request from the taxpayer an extension of time to avoid possible loss of revenue. This can be accomplished by having the taxpayer sign a waiver to extend the statute of limitations, as authorized by section 532.1 of the Revenue and Taxation Code.

The assessor's staff does not obtain waivers of the statute of limitations. Since the mandatory audit program is seriously in arrears, there is no doubt that taxable property has permanently escaped assessment. When the mandatory audits are performed in the future, having signed waivers will allow the enrollment of escapes in all audit years.

We recommend that the assessor's staff seek waivers of the statute of limitations in all situations where mandatory audits will not be completed timely.

RECOMMENDATION 12 : Follow statutory requirements when handling overassessments discovered by an audit.

Our review of completed audits performed by the assessor's staff noted two audits of business property accounts resulting in overassessments to the taxpayer. The taxpayer received written notification of the overassessment but the notification letter stated that "no corrections can be made as a result of this audit." Thus, there was no notification to the taxpayer that a claim for refund on the overassessment could be filed with the county. The overassessment was not submitted to the assessment roll change process, and there was no potential refund of property taxes based on the overassessment.

When an audit discloses an overassessment on business personal property for any cause, the assessor must notify the taxpayer that a claim for refund of taxes based on the overassessment can be made. If the property of the taxpayer was incorrectly valued for any cause, the assessor is statutorily bound to notify the taxpayer. Section 469 of the Revenue and Taxation Code provides that "the assessor shall notify the taxpayer of the amount of the excess valuation or misclassification, and the fact that a claim for cancellation or refund may be filed with the county." This subject was covered in Letter to Assessors No. 86/92, "Handling of Overassessments Discovered by Audit of Nonmandatory Accounts."

We recommend the assessor ensure that the taxpayer is properly notified of the amount of excess valuation and how to file a claim for refund of taxes levied on this excess valuation. When we made the assessor aware of the incorrect notification, he indicated that corrected procedures would be implemented to comply with the statutes.

C. BUSINESS PROPERTY STATEMENT PROCESSING

1. Overview

Section 441 of the Revenue and Taxation Code requires that every person owning taxable personal property having an aggregate cost of \$100,000 or more for any assessment year shall file a signed Form 571, Business Property Statement (BPS), with the assessor. Every person owning personal property which does not require the filing of a BPS must, upon request of the assessor, file a signed BPS. The Inyo County Assessor uses the BPS as a discovery and assessment tool and requests most of the businesses in the county to file the form annually.

For the 1997-98 assessment year, the Inyo County Assessor's Office mailed 1,334 business property and 97 agricultural property statements to property owners. Additionally, approximately 250 business accounts are on the direct billing program and receive no annual property statement.

Due to the relatively small population of the county, the assessor and his staff actively engage in looking for changes that occur in the business community, such as business closures, new businesses, relocations, etc., and refer this information to the auditor-appraiser and support staff. The real property appraisers and the auditor-appraiser work cooperatively together

in the appraisal of fixtures and tenant improvements on commercial properties. All changes discovered that relate to business accounts are promptly entered on the appraisal records.

The assessor reviews the property statement mailing list to ensure its completeness. He or the assistant assessor reviews all property statements after values have been computed by the auditor-appraiser. Currently, valuation computations based on the reported costs on the BPS are done manually. The assessor anticipates that by the 1998 lien date, his staff will have a computer software program available to use in computing assessed values on the business property statements. Use of this program should lessen the likelihood of mathematical errors in processing and allow more efficient use of the auditor-appraiser's time for audit purposes.

When the taxpayer fails to file the property statement, section 501 of the Revenue and Taxation Code gives the assessor the authority to make an estimated assessment of value. In addition, section 463 provides that "a penalty of 10 percent of the assessed value of the unreported taxable tangible property of such person placed on the current roll shall be added to the assessment made on the current roll." Our review indicated that both section 501 nonfiling estimates and section 463 nonfiling penalties are applied properly.

The business personal property reported on the annual BPS is valued using the recommended equipment index factors and percent good tables published in Assessors' Handbook Section 581 (AH581), Equipment Index Factors. Computers are valued based on Board guidelines described in Letter to Assessors No. 97/18. We commend the assessor for following Board guidelines in the use of their recommended equipment and computer valuation tables.

2. Classification

Proper classification of property is required by law. Sections 1 and 2 of article XIII of the California Constitution mandate that different valuation procedures be used for real property versus personal property. For real property, the annual taxable value increase is limited to the annual change in the Consumer Price Index (CPI) or 2 percent per year, whichever is lower. The result of this calculation is called adjusted base year value. The lower of the adjusted base year value or fair market value (reflecting the decline) is the proper assessment level to be enrolled.

Tangible personal property, however, is assessed each year as of the lien date at market value. The annual amount of change is not limited, nor does a change of ownership determine the date of reappraisal. Article XIII section 2 provides that the Legislature may classify personal property for differential taxation or for exemption. This gives the Legislature wide latitude in matters concerning taxation of personal property.

Because fixtures are considered by law to be real property and must be subjected to the same methods of valuation as other real property, it is important to identify fixed equipment and classify it as fixtures. Property Tax Rule 122.5 establishes criteria for fixture classification. It defines a fixture in part (a) (1) as: "...an item of tangible property, the nature of

which was originally personalty, but which is classified as realty for property tax purposes because it is physically or constructively annexed to realty...”

RECOMMENDATION 13 : Revise the business property assessment program by: (1) classifying fixed machinery and equipment as fixtures; and (2) valuing all fixtures at the lower of current market value or factored base year value.

Classify Fixed Machinery and Equipment as Fixtures

In Inyo County, with the exception of a few of the largest accounts, machinery and equipment reported on Schedule A of the BPS is being assessed as personal property. Only those fixtures identified and reported by the taxpayer on Schedule B of the BPS, or fixtures discovered and referred by the real property appraisers, are classified as fixtures. Consequently, most of the business property in the county is assessed as personal property.

The costs of machinery and equipment, furniture, and fixtures reported by the taxpayer on Schedule A of the BPS should be allocated between personalty and fixtures. If it is possible to segregate these costs by specific identification, that is the most accurate method if the data is available and the process is not too time consuming. The method most often used is to estimate what percentage of the total reported costs should be classified as fixtures and the balance is then personal property.

Percentages can be established by physical inspection of the assets or the use of percentages for the various business types already in general use by auditor-appraisers in allocating reported costs between personalty and fixtures. If after review or audit, the actual fixture amount is found to differ significantly from the estimate used, the percentage can be adjusted.

We recommend that the assessor develop average fixture allocation percentages by business type and apply those percentages to the costs of machinery and equipment, furniture, and fixtures reported on Schedule A of the BPS.

Value Fixtures at the Lower of Market Value or Factored Base Year Value

On Schedule B of the BPS there are two columns where the tenant or taxpayer is to report improvements to the building they occupy. One column is for fixture items and the other for structural items. When fixtures are reported, or when fixtures have been referred by the real property appraisers, the assessor’s staff initially assess the fixtures at current market value. The values are enrolled as a base year value, and in subsequent years are factored by the appropriate inflation factor.

Typically, fixtures have a relatively shorter economic life than real property, and they depreciate in value over time. In most instances the factored base year value would exceed current market value.

Because fixtures are classified by law as real property, they must be assessed at the lower of current market value or factored base year value. Fixture assessments are not annually reviewed for a decline in value. Only in the case of those larger companies previously mentioned, where a portion of machinery and equipment are allocated to fixtures, are fixtures valued annually by the use of trending tables which include a component for depreciation, resulting in a decreasing annual value.

We recommend that all fixtures be assessed at the lower of factored base year or current market value. This will produce a more accurate valuation of those fixtures and cause all similar property to be taxed in an equal and consistent manner.

3. Leased Equipment

The discovery and assessment of leased equipment is a time consuming task for most county assessors. In Inyo County, we found adequate controls in place for the discovery, valuation, and assessment of leased equipment. Leasing companies' property statements are processed and valued in conjunction with all other types of business personal property.

Previously, leased property had to be reported and assessed at the location where the property was used. Section 623 of the Revenue and Taxation Code now allows the assessor to place a single assessment on the roll for all leased personal property in the county that is assessed to the same taxpayer.

Leased property may now be reported at the taxpayer's primary place of business in the county. Combining the assessments in this manner allows for multiple low value assessments of leased equipment to be combined into one overall assessment. The assessor has opted to use this method of combining assessments of leased personal property.

Property Tax Rule 10 requires county assessors to give recognition to the trade level at which personal property is situated on the lien date and to the principle that property normally increases in value as it progresses through production and distribution channels. Such property normally attains its maximum value as it reaches the consumer level.

Leased equipment should be valued at the amount an end user would typically pay to purchase and install such equipment. Therefore, proper valuation of leased equipment may require a trade level adjustment. Currently, the auditor-appraiser is not making adjustments for trade level in the valuation of leased or rented equipment. With the anticipated increase in audit production, information can be gathered during the audit to address the trade level issue when appropriate.

Section 19 of article XIII of the California Constitution provides that the Board shall assess all property owned or used by public utilities. Section 19 also provides for the Board to delegate to county assessors the duty to assess properties used but not owned by state assessees. This is leased equipment not included in the unitary value assessed by the Board.

The property to be assessed locally is reported to the Board on a “Form V-600B” as part of the public utilities annual property statement. Each year, copies of these Form V-600B’s are sent to each applicable county assessor’s office with a cover letter stating that the Board’s staff will not include the listed equipment in the Board’s assessment. If the lessor has not reported this equipment to the assessor, it should be assessed by the county assessor based on the Form V-600B information. In Inyo County, this procedure is done by the auditor-appraiser.

D. BOAT VALUATION

1. Boats

In our previous survey of the Inyo County Assessor’s Office, we noted that pleasure boats had not been assessed for several years. Our recommendation at that time was to annually assess boats in accordance with sections 201 and 1141 of the Revenue and Taxation Code.

In our current review, we found the pleasure boat assessment program has been reinstated and is operating efficiently. For the 1996-1997 tax year, there were approximately 525 boats assessed.

Annually, boat owners are sent a form titled “Boat/Motor Property Statement.” This computer-generated form contains boat information previously reported to the assessor by the boat owner. The boat owner updates and completes this form and returns it to the assessor. The prior year’s value is encoded on the form so the auditor-appraiser can make a reasonable comparison between the prior year’s value and the current year appraisal.

RECOMMENDATION 14 : Revise boat appraisal procedures by: (1) including sales tax as a component of value when determining market value; and (2) applying late-filing penalties only when using Board-prescribed forms.

Add Sales Tax when Determining Value

The auditor-appraiser annually values boats by referring to ABOS, a published boat value guide. This boat guide does not include sales tax in the listed prices. The auditor-appraiser does not add a component for sales tax to the listed prices to arrive at the full cash value of the boat.

Sales tax is a recognized component of market value and should be added to the prices listed in the ABOS price guide when determining market value. Since sales tax has not been included in the boat appraisals, the assessed values of the boats are understated by the applicable sales tax in Inyo County.

We recommend that appraisal procedures be revised to include a component for sales tax when determining market value.

Apply the 10 Percent Late Filing Penalty Only when Using a Board-Prescribed Form

When the “Boat/Motor Property Statement” form is not returned by the due date, a 10 percent penalty is applied to the assessment under the provisions of section 463 of the Revenue and Taxation Code. The section 463 penalty may only be applied when using Board-prescribed forms. While the county’s form is effective, it is not a Board-prescribed form, and the assessor has no statutory authority to apply a late filing penalty when using a form developed by his office.

We recommend the assessor either use the Board-prescribed form or refrain from applying the 10 percent late filing penalty assessment.

APPENDIX

The Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing² activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the Board's County Property Tax Division (CPTD) on a five-year cycle and described as follows:

- (1) A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
- (2) These assessments are stratified into three value strata³, identified, and placed into one of five assessment categories, as follows:
 - a. Base year properties -- those properties the county assessor has not reappraised for either an ownership change or new construction since the previous CPTD assessment sampling.

² The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

³ The three value strata are \$1 to \$199,999; \$200,000 to \$1,999,999; and \$2,000,000 and over.

- b. Transferred properties -- those properties where a change in ownership was the most recent assessment activity since the previous CPTD assessment sampling.
 - c. New construction -- those properties where the most recent assessment activity was new construction added since the previous CPTD assessment sampling.
 - d. Non-Proposition 13 properties -- those properties not subject to the value restrictions of Article XIII A.
 - e. Unsecured properties -- those properties on the unsecured roll.
- (3) From the assessment universe in each of these fifteen (five assessment types times three value strata) categories, a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. (A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values.) Because a separate sample is drawn from each of these assessment types and value categories, the sample from each category is not in the same proportion to the number of assessments in every category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each category is multiplied by the ratio of the number of assessments in the particular category to the number of sample items selected from the category. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
- (4) The field investigation objectives are somewhat different in each category, for example:

- a. Base year properties -- for those properties not reappraised since the previous CPTD assessment sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
 - b. Transferred properties -- for those properties where a change in ownership was the most recent assessment activity since the previous CPTD assessment sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?
 - c. New construction -- for those properties where the most recent assessment activity was new construction added since the previous CPTD assessment sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
 - d. Non-Prop 13 properties -- for properties not covered by the value restrictions of Article XIII A, do we concur with the amount enrolled?
 - e. Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
- (5) The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
- (6) The results of the sample are then expanded as described in (3) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS



RICHARD A. WHITE
Assessor

COUNTY OF INYO

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June 19, 1998

William B. Jackson, Chief
County Property Tax Division
Property Taxes Department
Assessment Standards Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0064

RECEIVED
JUN 23 1998

County Property Tax Division
State Board of Equalization

Dear Mr. Jackson:

Pursuant to Section 15645 of the California Government Code, we are forwarding herewith the Assessor's Response to the 1993-94 Assessment Practices Survey Report conducted by the State Board of Equalization staff in Inyo county. I request that this response be included as part of the survey report.

I wish to thank you and the members of your staff who conducted the survey in a professional and courteous manner.

In addition, I wish to acknowledge the employees of the Assessor's office for outstanding effort and dedication towards their work, enabling us to maintain a high quality assessment program.

Very Truly Yours,

Richard A. White
Assessor

Enclosure

RAW/jcm

RECOMMENDATION 1: Request the board of supervisors revise the disaster relief ordinance to comply with current statutory timelines.

Response: We have requested our county counsel to prepare the correct wording to the Inyo County disaster relief ordinance for enactment by the Board of Supervisors to reflect the lien date change.

RECOMMENDATION 2: Add to the nominal selling price of real property the cash equivalent amount of improvement bonds issued under the 1911, 1913, or 1915 Bond Acts.

Response: We agree that we should adjust sales price for such improvement bonds and will correct our procedures if pending legislation changing this requirement is not enacted.

RECOMMENDATION 3: Include construction period interest as a component of the construction cost when using the cost approach.

Response: We will include construction interest as a part of the cost approach to value on future assessments. We have included such interest on major mining and geothermal projects but have failed to do so on some commercial projects.

RECOMMENDATION 4: Follow regulatory guidelines when classifying water wells.

Response: We plan to change our classification of water wells as recommended.

RECOMMENDATION 5: Revise the possessory interest program by: (1) assessing the possessory interests of major users of fairground facilities; and (2) selecting an appropriate discount rate for possessory interest income capitalization.

Response: Since the Fairground is on taxable (Section 11) land and all uses are for very short periods we do not believe it would be cost effective to attempt to assess possessory interests. We will review our discount rates for other possessory interests in the future.

RECOMMENDATION 6: Discontinue the practice of deducting article XIII section 11 values from fee values when appraising taxable possessory interests located on LADWP lands.

Response: We believe our method of calculation is based on the correct interpretation of Article XIII Section 11.

RECOMMENDATION 7: Revise manufactured home assessment procedures by: (1) classifying manufactured homes on the assessment roll as personal property; (2) placing greater emphasis on the use of recognized value guides and noting these values on appraisal records; and (3) annually reviewing all manufactured homes for declines in value.

Response: (1) Our present computer system will not allow us to allow homeowners exemptions on personal property. We are presently looking at new property tax systems which will allow us to properly classify manufactured homes as personal property and allow homeowners exemptions on such personal property. (2) We currently use value guides if confirmed sales prices are not available. (3) We annually review manufactured homes for value reductions as possible.

RECOMMENDATION 8: Enroll the lower of factored base year value and current market value for water company properties.

Response: We will review water companies for proper valuation.

RECOMMENDATION 9: Ensure mineral appraisals performed by a contract mineral appraisal consultant are reviewed for accuracy and have adequate documentation.

Response: We have instituted a more thorough review of appraisals done by our contract mineral appraisal consultant.

RECOMMENDATION 10: When valuing unpatented mining claims using BLM rental payments, enroll the lower of factored base year value or current market value.

Response: We will review our method of mineral property valuation as recommended, however, we are not aware of any unpatented mining claims where the factored base year value is higher than the current market value.

RECOMMENDATION 11: Revise the mandatory audit program by: (1) completing the mandatory audits required by Revenue and Taxation Code section 469; and (2) obtaining written waivers of the statute of limitations whenever a mandatory audit cannot be completed timely.

Response: Our audit program is moving ahead in an attempt to eliminate the back log of mandatory audits.

RECOMMENDATION 12: Follow statutory requirements when handling overassessments discovered by an audit.

Response: We are now following statutory requirements when handling such over assessments.

RECOMMENDATION 13: Revise the business property assessment program by: (1) classifying fixed machinery and equipment as fixtures; and (2) valuing all fixtures at the lower of current market value or factored base year value.

Response: We are in the process of revising our classification of fixed machinery and equipment as fixtures when we are able to sufficiently identify such equipment, and to value such.

RECOMMENDATION 14: Revise boat appraisal procedures by: (1) including sales tax as a component of value when determining market value; and (2) applying late-filing penalties only when using Board-prescribed forms.

Response: We have revised our boat appraisal procedures to use Board-prescribed forms prior to applying late-filing penalties.

**BOARD'S
COMMENTS
ON
ASSESSOR'S
RESPONSE**

BOARD'S COMMENTS ON ASSESSOR'S RESPONSE

In accordance with the provisions of Government Code section 15645, the Inyo County Assessor elected to incorporate his response to the Board's findings and recommendations in the published survey report. Section 15645 also allows the Board to include in the report comments regarding the assessor's response.

The assessor stated in his response that his method of calculating possessory interest values on section 11 lands is correct. We disagree.

The assessor subtracts the section 11 value from the fee value of the property and refers to the remainder as the "nontaxable increment." He then subtracts the present worth of the possessory interest reversion from this "nontaxable increment" to determine the possessory interest value. This method assumes that the fee value is equal to the total of the section 11 value, the possessory interest, and the reversionary interest in the possessory interest property.

The correct method is to (1) determine the taxable possessory interest value; (2) subtract the section 11 value from the fee value of the property to determine the amount available for taxation; (3) compare the possessory interest value to the amount available for taxation; and (4) enroll the lower of the possessory interest value or the amount available for taxation.

The only time the value of a possessory interest reversion is considered is when the "indirect" method is used for appraising the possessory interest. When using the indirect method, the appraiser estimates the fee value of the property rights today and deducts from that value the present worth of the fee value of the same property rights as of the date that possessory interest will expire; the remainder is the taxable possessory interest value. Thus, the present worth of a reversionary interest is the difference between the value of the rights that are held for a limited time by the holder of the possessory interest and the value of the same rights held into perpetuity.

In most cases, the present worth of a reversionary interest is not taxable because it is owned and held by the government agency, not the holder of the possessory interest. However, in the case of a section 11 property, the property is taxable (except for improvements that are additions to the property). Therefore, the assessor's methodology has the effect of creating an exemption that is not authorized by property tax law.

Again, we urge the assessor to revise his method of calculating possessory interest assessments on section 11 properties.